AMAP BDS K&P Research Plan for Component D: Impact and Other Post-intervention Assessments

This draft research plan:

- Provides a brief introduction to the topic of impact assessment as applied to efforts to facilitate wealth creation through the micro and small enterprises of the poor;
- Proposes a vision, hypotheses, research objectives, and communication strategy for the BDSK&P research; and
- Briefly describes the activities to be undertaken by each of the three Component D contractors.

Introduction: Efforts to Create Wealth through MSEs and the Need for Impact Assessment

Micro and small enterprises (MSEs) are important income sources for poor people in developing and transition countries. Large numbers of entrepreneurs, family members, and employees participate in MSEs. Raising the productivity and value added of these enterprises can bolster the income, wealth, and wellbeing of microentrepreneurs, those who work for them, and their communities.

Important changes have been occurring in the markets in which MSEs sell their products. Economic development at the regional, national, and global levels has widened markets for many different products, intensifying competition. The natural protection that many MSEs have enjoyed in local markets as a result of high transportation costs, poor communications, and localized differences in taste is breaking down. At the same time, opportunities for MSEs to sell goods and services in more distant markets are opening up. Globalization is simultaneously threatening the continued existence of many MSEs and offering others opportunities to increase their income and expand employment.

The growth of private enterprises is crucial for the achievement of economic growth. Economic growth can be considered pro-poor if the incomes of the poor rise at least as fast as per capita incomes in the society as a whole. The main income sources for poor people in most developing countries are micro and small enterprises in agriculture, trade, manufacturing, and services, as well as wages from (mostly unskilled) labor. MSEs are major source of enterprise income for the poor as well as a significant element in wages. We therefore hypothesize that accelerated development of MSEs will make substantial contributions to pro-poor economic growth.

Broadly speaking, the growth of sustainable private enterprises depends on three sets of factors:

◆ The **demand** for goods and services from private and public sector consumers and investors, which in turn depends on the size of the national market, its annual growth rate, the

distribution of income, the industrial structure of the economy, and the access that firms in particular developing countries can obtain to overseas markets;

- ♦ The **business environment**, which is a compound of many elements. The business environments of most developing countries contain many negative features and are biased against MSEs, which are often treated less favorably than larger enterprises by the policies, regulations, and enforcement activities of national, regional, and local governments.
- ♦ The **private sector supply response** to the demand for goods and services, as shaped by the business environment. This response is influenced by the entrepreneurial capacity of the firms, by the degree to which they are able to cooperate, and by the business support services available. Business support services are both financial and non-financial in nature; non-financial services are known as BDS.

Improvements in highly adverse business environments are needed in order to accelerate wealth and employment creation. To thrive, MSEs need a business environment that generates low transaction costs. Laws and regulations that raise the cost (in money and time) of forming, operating, and closing a business make it harder for MSEs to operate. Policy advocacy to bring about the reforms needed to improve the business environment is an important part of any enterprise development program.

The other major problem is product demand. Higher product demand is needed in local, regional, and world markets. Local markets for MSE outputs (goods and services) in local markets can easily become saturated. When this occurs, increased sales by one enterprise serve only to reduce the sales that other enterprises can make and/or to lower the product prices received by all firms. Market prospects can be improved if MSEs can move outside the local market to access regional or national markets, or even discover niches of their own markets that remain untapped. To do so, improvements in infrastructure, transportation, and communication may be needed. Even at regional and national levels, however, demand constraints are often encountered, especially in countries where GDP is small and/or stagnant – as, unfortunately, is the case in most of the countries in which USAID works.¹

For many MSEs, one promising way to escape the demand constraint is to find a way to link to export markets, or more dynamic local markets. Few MSEs are able to export directly, since they find it hard to meet the demanding requirements of overseas markets for large production volumes, strict quality control, ability to deliver on time, adherence to style guidelines, etc. They therefore must seek indirect forms of participation in exports. By linking into a value chain in which other, usually larger, firms perform some of the critical functions needed to export successfully, MSEs can raise their revenues and generate wealth for their owners. A similar process may occur in the case of accessing more dynamic national markets, when these exist.

MSEs may link naturally to more productive value chains through the workings of market forces, or linkage may need to be stimulated and accelerated by the enterprise development programs undertaken by USAID and other donors. USAID has a wide variety of programs that seek to boost the development of private enterprise by stimulating the private sector response to the incentives

¹Most have GDPs of \$50 billion or less (often far less) and more than half experienced little or no growth in GDP per capita in 1990-2002. See Donald R. Snodgrass and James Packard Winkler. 2003. "Enterprise Growth Initiatives: Where Are They Going?" Bethesda, MD: Development Alternatives, Inc. Draft.

offered by the level and pattern of product demand. These include financial service programs, BDS market development programs, competitiveness programs, trade and investment programs, and agribusiness programs.² Many (although not all) of these programs emphasize the participation of MSEs owned and operated by poor people. An early goal of this research program is to catalogue and categorize these enterprise development programs, with the objective of identifying the different approaches that have been taken to improving market access for MSEs.

Past efforts to promote MSEs have concentrated on improved provision of financial services and business development services (BDS). Over the past 20 years it has been shown that, contrary to the prior belief of many, financial services (including savings and other services as well as small loans) can be provided on a sustainable basis in many different settings to poor people and their MSEs. Beyond financial sustainability, the AIMS (Assessing the Impact of Microenterprise Services) study, along with other microfinance impact assessments, showed that microfinance does indeed have impacts that favor wealth creation by the poor, although these impacts may take forms other than enhancement of the enterprise for which microcredit was obtained and vary in nature and magnitude with the structural characteristics of the microfinance program in question, as well as with its setting.³

Business development services are also needed for sustainable growth of private enterprises to occur on all scales and in all countries. Businesses in developed countries spend huge amounts of money on services that they purchase from each other. Enterprises of all sizes in developing and transition countries have many opportunities to increase their sales and profits by using more and better business services, but MSEs in particular often either fail to acquire services that would benefit their businesses or else access services of uncertain quality from informal sources. This failure reflects problems on both the supply and the demand sides of business service markets. Some potential users of business services fail to understand what more and better use of services can do for their businesses. Others do understand the benefits but believe that they cannot afford to pay for services. In principle, demand for business services should be derived from identified profit opportunities. Business services that succeed in raising the profits of the companies that use them pay for themselves. The availability of finance may, however, be needed to support effective demand for business services. On the supply side of the business service market, suppliers of business services may be weak, few in number, or altogether absent; their capacity needs to be raised.

BDS can play a key role in helping MSEs to innovate, upgrade, make the transition to higher-return activities, penetrate new markets, and overcome regulatory or other constraints. Meanwhile, BDS that targets the most vulnerable populations may enhance income-generation strategies that are viable in the shorter term.

The importance of BDS for enterprise growth and its relationship to the goal of linking MSEs to more lucrative value chains make it a major area for donor-funded intervention to promote private sector development. Past donor funding of programs operated by NGOs and government agencies that provided services directly to MSEs compiled a weak performance record.⁴ Many programs

3

³ See Donald R. Snodgrass and Jennefer Sebstad. 2002. "Clients in Context: The Impacts of Microfinance in Three Countries: Synthesis Report." Washington, D.C." Management Systems International.

⁴ Among numerous critiques, see Donald R. Snodgrass and Tyler Biggs. 1996. *Industrialization and the*

were of low quality and limited relevance, coverage of the potential clientele was very limited, and sustainability following the cessation of donor funding was lacking. Appreciating these shortcomings, leading donors shifted their emphasis from direct funding to the BDS market development approach in the 1990s. Under this approach, donors fund agencies known as facilitators, which promote the provision of business services on a sustainable basis by profit seeking service providers who charge clients for cost of their services or recapture their costs by embedding their fees in charges for commodity transactions. Facilitation involves efforts both to strengthen the supply side of the business service market through capacity building and to stimulate demand for BDS. Within the context of larger private sector development interventions designed to stimulate broader economic growth, the adoption of a BDS market development strategy including the successful facilitation of commercial BDS can serve as the foundation of a larger project's sustainability plan, or exit strategy.

There is strong agreement in principle among the major donors that the BDS market development approach is more promising than the older approach involving direct service provision. Yet, there has been little documentation of results in the field. As far as we are aware, no comprehensive inventory has been compiled of projects that seek to develop enterprises using the BDS market development approach or by trying to include MSEs in an enterprise growth initiative under the label of competitiveness, subsector development, or agribusiness development. Moreover, information on the results of these programs (either their immediate results or their ultimate impacts) is severely limited. There are said to be 20-30 outstanding evaluations, but these studies have not yet been inventoried, let alone reviewed to determine what can be learned from them, either about evaluation methodology or about the impacts of BDS market development programs.

Component D research seeks to determine the nature and extent of BDS interventions' impact, use the information obtained to improve the design and implementation of BDS market development programs, and thereby help MSEs link to more productive value chains within the context of a number of intervention types.

Vision for AMAP BDS K&P

The BDSK&P Research of Impact and Other Post-Intervention Assessments shares a common vision and overriding hypothesis with other components of AMAP BDS. The vision is that: BDS can and must contribute to wealth creation in poor communities. The overriding hypothesis about how it can do so is that: facilitating MSE links to more lucrative and rapidly growing markets can promote wealth creation by the poor. This facilitation is to be effected by commercial means. A further hypothesis is that: market linkages alone are not enough to create wealth; MSEs also need an array of supporting services, including BDS, financial services, and policy advocacy to improve the business climate. The contribution of business services in this context is to improve MSEs' capacity to respond to market conditions – for example, by upgrading⁵.

Small Firm: Patterns and Policies, Chapter 4. "Small Enterprise Promotion Programs," pp. 127-146. San Francisco: International Center for Economic Growth.

⁵ Upgrading can be defined as the acquisition by firms of attributes that (1) provide value to final customers; (2) are possessed by few competitors; and (3) are difficult to copy. Alternatively, the term can refer to dynamic qualities such as internal processes that facilitate learning and improve the market position and trajectory of the firm. See Raphael Kaplinsky and Mike Morris (2003?). "A Handbook for Value Chain Research." Paper prepared for the IDRC.

Preliminary Impact Hypotheses

The vision articulated above contains two implicit hypotheses. The first is that better market access is the key to raising incomes and generating wealth through MSEs. A second implied hypothesis is that market access alone isn't enough; there is a need to build enterprise capacity to respond, for example through access to relevant business services. Other improvements such as better access to finance and a more favorable enabling environment may also be necessary. The Component D research team proposes to examine and refine these implied hypotheses through early work on a conceptual framework. Much as the AIMS research team did with the household economic portfolio model, the BDSK&P team will develop a model and then think about how interventions impact their target population(s) and market(s) through that model. From these revised hypotheses the team will derive a set of variables and measures that will be applied during the research. The team believes that it is possible to develop practical and easy-to-use impact assessment methodologies, relevant for a number of private sector development intervention models.

Impact can be defined as change that is attributable to a program intervention. We would expect the intervention programs to be studied (a group that is subject to further refinement after the proposed inventory of programs is compiled and examined) to have impacts at four levels. These levels and tentative lists of issues that could be evaluated at each level are listed below. Impact assessment serves several functions: to prove and improve a given program's effectiveness, as well as to provide insights that help future implementers of similar programs. There are two types of questions associated with each level below: questions that must be answered in order to prove impacts, and questions which are aimed at generating insights about improving existing programs and implementing future programs. Questions aiming to prove impacts frequently begin with the phrase "Do the interventions...?" while questions aimed at generating insights begin with phrasing like "What can we learn about....?"

The four levels at which impact will be assessed are: (1) participating enterprises; (2) associated households; (3) product markets, value chains and clusters⁶, and (4) business service markets. In addition, there are questions about the effectiveness of different types of intervention. The major questions to be addressed at each level are outlined below:

1) Participating enterprises.

- o Do the interventions raise enterprise revenues and profits?
- o Do they enable MSEs to increase the value of their assets or net worth?
- On they help MSEs to upgrade their operations and/or link into more lucrative value chains?
- o Do they reduce risk for enterprises participating in value chains and clusters?
- O Do they allow MSEs to perform sustainably in new markets?

2) Associated households

- o Do the interventions raise household incomes?
- o Do they enable households to increase their assets or net worth?
- Do they help poor clients move out of poverty?

2b) Additional questions about impacts on participants

⁶ In the case of cross-cutting business service interventions, the product markets may not be included.

- To whom do program benefits accrue (enterprises, households, men and women)?
 What can we learn about the fungibility of the benefits from BDS within households (do they spread to other enterprises or affect household variables such as nutrition and the education of children?)
- o How rapidly are the benefits realized?
- Are the benefits sustained?

3) Product markets, value chains and clusters

- o Do the interventions help to expand product markets?
- o Do they result in greater innovation and/or improved inter-firm cooperation?
- o Do they improve product market stability?
- o Do they improve product quality and/or introduce new products?

4) Business service markets

- o Do the interventions help to expand service markets?
- o Do they improve service market stability?
- o Do they improve the quality of business services and/or introduce new services?
- What can we learn about the impacts of different types of business services (training, advice, marketing assistance, etc.)?
- o Is the availability of financial services (supplier credit, microfinance, etc.) a necessary condition for adequate utilization of business services?
- What can we learn about the secondary distribution of information to other enterprises from firms that participate in BDS services?

5) Key questions about interventions

- What can we learn about the effectiveness of different approaches to BDS market development, as well as the effectiveness of approaches that pay more attention to product markets (e.g., competitiveness; agribusiness)? When and how can crosscutting services be effective tools for economic growth and wealth creation?
- Can BDS markets can be induced to serve the microenterprises of the poor, e.g. through greater use of embedded services or other service delivery and pricing innovations?
- O Can BDS market development can help link micro and/or small enterprises to global value chains? How do levels of social capital, inter-firm cooperation, and clustering strategies relate to program effectiveness?
- o How do successful BDS interventions relate to broad-based economic growth?

Research Objectives

The project has several specific objectives, which will be met by performing a series of tasks. The objectives are:

• To build a conceptual model which enables us to better understand the impact of BDS interventions, whether stand-alone or as components of larger private sector development

programs. This process will include refining and developing hypotheses about the impact of enterprise development interventions.

- To develop and test a rigorous methodology for measuring the impact of such programs on four levels: (1) participating enterprises, (2) associated households, (3) product markets, (4) business service markets. This methodology, while rigorous, should be as simple as possible.
- To produce insights about the most effective types of interventions in this field and how they
 work, as well as insights and associated tools (i.e. guidelines, proxy indicators) that will
 give USAID missions and practitioners realistic options for evaluating the impact of their
 programs, and provide guidance on how to develop performance monitoring plans (PMPs).

It should be noted that the primary focus of the research is on *impact*, as opposed to performance monitoring. It is expected that the research will produce indicators and guidelines that can be used for the purpose of performance monitoring. However, the research team has decided that given limited resources, a strong focus on impact is advisable. Below is a description of the tasks through which the research objectives will be achieved. Table 1 at the end of this document specifies the role of each contractor and distinguishes intermediate products from final deliverables.

Stakeholder consultation, planned to occur at strategic moments during the research, is the main thrust of the team's **communication strategy**; i.e., mission staff and practitioners will be engaged in a dialogue in which they identify and prioritize issues that should be looked at under this research. Additionally, the purposeful use of simple terminology and the broadened definition of BDS interventions should mitigate communication problems. A proactive effort will be made to have missions buy-in to the field studies, which would reduce pressure on the budget.

- ◆ Task 1: To compile and maintain an **inventory of significant enterprise development programs that seek to enhance wealth creation by micro and small enterprises of the poor** undertaken by USAID and selected other major donors. This inventory will include programs with different labels, e.g. microfinance, BDS, competitiveness, trade and investment, agribusiness, subsector development programs. For each program there will be a description of key characteristics, such as program type, goals, approach and methodology, scopes, settings/coverage, and terms. After we have compiled this information and analyzed it, we should be able to define the range of potential interventions and differentiate the various approaches taken. Defining what the programs attempt to do and how they attempt to do it is the first step in impact assessment; this activity will produce critical inputs for the conceptual framework.
- ◆ Task 2: To compile, maintain, and evaluate an **inventory of all available evaluations of**enterprise development programs that seek to enhance wealth creation by micro and
 small enterprises of the poor. For each evaluation included, there should be a description
 of the program evaluated, the stage at which it was evaluated, the evaluation methodology
 employed, and the main findings of the evaluation. It can be anticipated that relatively few
 of the programs covered in Task 1 will have been evaluated and, moreover, that those
 evaluations that have been undertaken will vary widely in approach and quality.
 Nevertheless, understanding the results of past efforts to assess impact is an important
 prerequisite to planning our own impact assessment; this activity will provide important

inputs into the process of developing a rigorous impact methodology. ACDI/VOCA, through IBM, will share insights from their experiences developing performance monitoring plans (PMPs) with USAID missions. DAI will also incorporate recent USAID work on impact assessment (i.e., Technical Notes on Impact Assessment (TIPs)).

- Task 3: To develop a conceptual framework for assessing the impact of enterprise development programs intended to enhance wealth creation through the MSEs of the **poor.** This framework will build on previous conceptual work done by USAID, including the PMF, AIMS, MD's recent and ongoing work on conceptualization and application to projects in Kenya, and the recent enterprise growth study carried out by DAI. It will also incorporate thinking by the Donor Committee on Small Enterprise Development, the World Bank, and others and reflect what is learned through the collection of information on recent experience in the field⁷. ACDI/VOCA will contribute a brief memorandum on the lessons learned from the AIMS experience⁸. The conceptual framework will be based on an understanding of how MSEs operate in developing and transitional countries, as well as their relationships to household economics and broader economic growth. It will then trace the logic model of enterprise development projects through their goals, project activities, intermediate results expected, and hypothesized impacts, on the four levels described above. In addition, we ask some key questions (listed above) about specific approaches to intervention and their effectiveness. The overall aim is to create a conceptual framework that can be adapted for use in assessing the impact of all types of MSE development programs in any setting.
- ♦ Task 4: As part of the conceptual framework, researchers will develop, test, and refine a list of common performance indicators for the four levels of impact defined above, then define their meaning for program impact. The BDS K&P team will develop guidelines for practitioners based on the conceptual framework, tested indicators, inventorying, and other relevant work. In its work with common performance indicators, the study will also attempt to identify and test proxy measures that can be used (either across all projects or within certain intervention categories) to assess impact in future projects, reducing the need for expensive quasi-experimental studies. These products are fundamental to the development of the impact methodology. The preliminary results of this exercise will be disseminated and should be useful to USAID missions and practitioners currently implementing BDS interventions. As a way to further test and refine these indicators, Louis Berger will conduct a number of ex-post evaluations, reviewing project performance and assessing outcomes of private sector development programs in several regions.
- ◆ Task 5: To test these ideas through quasi-experimental and other field studies in a small number of sites where significant enterprise development programs are being undertaken. These studies will provide important opportunities for refining and testing alternative impact assessment methodologies. A main outcome of these studies, in addition to the findings, are

⁷ Don Snodgrass will work closely with Jeanne Downing to ensure that there is two-way communication and a flow of information and materials between the BDSK&P research team, the Donor Working Group on Impact, and the Kenya impact assessment.

⁸ Jennefer Sebstad will be the primary author of this document, but will draw also from the experience of Monique Cohen and Elizabeth Dunn, both working with ACDI/VOCA on other AMAP activities.

the methodologies and tools which will be developed in order to carry them out⁹. Although these studies can be designed only after the work of the earlier four tasks has made significant progress, some important criteria for this important phase of the work are already evident:

- o To establish that a program has a significant causal impact, a counterfactual (a view of what would have happened in the absence of the program) must be defined and measured. Conceptually the best way to do this is through experimental studies, but this is unlikely to be possible. To evaluating impact on participating enterprises and related households, we will employ the second-best methodology for the purpose, a quasi-experimental evaluation design in which outcomes for a "treatment group" of program participants is compared to outcome for a "control group" of nonparticipants who are similar to the participants in all relevant respects except program participation and can assumed to be unaffected by program activities. Applying this evaluation design to BDS poses certain problems, especially when assessing impact at the product and service market levels. Programs that work through markets can be expected to have impacts, at least of certain types, on parties who are not direct participants in the programs ¹⁰. If a program is undertaken in one region of a country and there are other regions that are similar in relevant respects but do not participate in the program, the use of a regional control group is a possibility. 11 Otherwise, it may be necessary to use a simple before-and-after methodology to assess impacts on product and service markets, even though this approach cannot answer some important questions about attribution and additionality.
- Stakeholders will be involved in both the research design phase and the research implementation at the country/program level. This will help ensure the credibility and usefulness of the work. USAID Mission personnel will be consulted.
- Qualitative assessment will be used to complement quantitative assessment because it adds depth and helps to explain the reasons for changes observed in the numbers.
- ◆ Task 6: The research team will systematize the results of the whole component's work into a guide aimed at mission staff. The guide will briefly review cover conceptual issues as well as answering simple questions like "When?" "Where?" and "How much should it cost" to perform impact assessments. ACDI/VOCA and LBI will review and comment on the guide, and provide selected inputs based on their earlier contributions to the research.

⁹ Consulting with USAID missions throughout the process, the team will make sure that their priorities are considered; i.e., Are cost savings the most important issue? Are simple, accessible tools the most important product? Should the team focus on testing proxy indicators so that USAID missions won't need to conduct expensive impact assessments very often? Should the results provide insights on how to improve programs? In order to ensure quality work, there will be a need to focus the research in accordance with USAID mission priorities. In addition, the decision to undertake quasi-experimental studies will be revisited, to make sure that this is the most effective use of the BDSK&P resources allocated to this project component.

¹⁰ Even at the enterprise and household level, this will be an issue. One possible solution is to define "degrees" of participation and examine whether level of impact corresponds with degrees of participation. This does not entirely solve the problem of the control group, however.

¹¹ See Eric Oldsman, "Assessing the Poverty Impact of Small Enterprise Initiatives." Paper presented to Committee of Donor Agencies for Small Enterprise Development. Copenhagen, 14-16 September, 2003.

Organizing the Research

With leadership from DAI, the three contractors (DAI, ACDI/VOCA, and LBI) will work in a collaborative fashion to achieve the objectives of the Component D research. In addition, some of the work done under Components A, B, and C should contribute to the achievement of the Component D research objectives.

Each of the AMAP BDS K&P contractors will contribute to achievement of the goals of Component D research:

- ◆ DAI will take the lead in all the work to be done under Component D. It will be assisted by its sub-contractor, QED.
- ◆ ACDI/VOCA will contribute substantive input to all phases of the research design and implementation, by offering the collaboration of Elizabeth Dunn. Other discrete tasks to be carried out by ACDI/VOCA include conducting a brief review of the AIMS process and lessons, with the goal of summarizing what was learned regarding (a) approaches to studying household and enterprise level impacts, and (b) findings from the three AIMS core impact studies in areas that overlap with the AMAP Component D conceptual framework (household and enterprise level impacts.) Specifically, reference will be made to three longitudinal studies carried out in Peru, India, and Zimbabwe. ACDI/VOCA will also contribute insights about the Performance Monitoring Plan (PMP) process which missions undertake for all projects.
- ◆ Louis Berger Group, Inc. will conduct several ex-post evaluations of private sector development projects to assess issues of sustainability, scale, and impact. Their work will be based on the conceptual framework, and will serve to further test and refine the preliminary common indicators and proxies developed by the research team.

To make sure the research remains demand-driven and that each contractor contributes to achieving the objectives, DAI proposes a process methodology with the following characteristics:

- *Transparency*: DAI will offer a web-based system where Component D research team members and other interested parties can view and post documents such as meeting agendas, the research plan, works-in-progress, references, and comments. Access codes will be made available to the entire Component D research team, including AMAP contractors and USAID's Microenterprise Development office.
- *Component linkages*: There are a number of activities (such as the mission stocktaking under C and B, and the inventory of programs and evaluations under D) which have project-wide relevance. Component D Coordinator Lara Goldmark will work proactively to ensure that synergies are exploited, information is shared, and that all AMAP contractors benefit from these activities.
- Mission-responsive process: USAID missions are the primary audience for this work. The
 research team plans to incorporate input from stakeholders especially mission staff and
 practitioners into the research design and to continue to consult with these actors during all
 phases of the research. In addition, the team will promote mission buy-ins to complement
 limited K&P resources to carry out field studies.

- An iterative research agenda: The research agenda may be adapted as key concerns emerge and opportunities to develop simple and useful tools arise. Examples of key areas where further refinement of the research agenda is necessary or expected are: selection of projects and field study site(s), the exact nature of the ex-post evaluations to be carried out by LBI, and the design of the quasi-experimental studies.
- **Strategic dissemination**: Although the Knowledge Management contractors are expected to contribute substantially to the dissemination of BDSK&P research products, it is important that the research team be aware of upcoming seminar and conferences which may represent opportunities to interact with mission staff, practitioners, and other donors; to discuss or communicate elements of the research agenda or release early deliverables.